Inc.
THE MAGAZINE FOR GROWING COMPANIES
DO-IT-YOURSELF MARKETING
HOW YOUR COMPANY CAN SELL MORE BY SPENDING LESS
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COVER PHOTOGRAPH by JOHN MADERE

(MARKET RESEARCH, from page 179)
loss. Radiant also negotiates the right to use the findings for its own purposes, without restrictions. That's not a problem, the CEO claims, since the sponsors aren't direct competitors, partly by virtue of their size and partly because their applications are different.

In fact, Bullington has since teamed up with an "underwriter" on a research project that may lead to a joint marketing-and-development agreement. He's also one step closer to his long-term goals, with plans to enter the optical-disk-drive market in about two years.

The research results, he says, "validated where we want to go. When you're making business plans and projections, having a report in hand gives you a lot more credibility. Before, there was no way we could verify my gut instinct. This was a sanity check." *—Susan Greco*

RETAIL PROMOTIONS

Pushing the Envelope

WHAT WOULD YOU PAY FOR a tactic that gets new customers into your store, gives you an unbiased report on your company's service, and brings you lots of new ideas?

Gary Cino, CEO of 98¢ Clearance Centers, thinks it's worth $5.

When Cino, whose company is based in West Sacramento, Calif., meets someone who's never set foot in one of his 18 retail stores, where every item costs 98¢, he hands the prospect an envelope. Inside are $5, another envelope stamped and addressed to Cino, and a single-sheet questionnaire with a dozen queries such as "Did the cashier greet you at time of checkout?" The first-timers are also asked to rate the store's appearance and products, and to provide comments and suggestions. Customers are also asked to attach a copy of their cash-register receipt.

"We're bribing them, but it's a relatively inexpensive way to accomplish a lot of things," says Cino, whose stores gross almost $30 million annually. He and his executives pass out some 500 packets a year, amounting to a measly $2,500 cash expense. About 85% of the shoppers return the survey within 90 days. Responses are posted at each store.

The attached receipts show that most of the new customers spend considerably more than $5. The feedback is worth even more. "It lets our employees know that at any time, any given customer could report back to management," says Cino. As for changes, Cino is considering accepting personal checks because so many survey participants have mentioned them.

The envelope-and-cash technique is better than using mystery shoppers, says Cino. "We get more accurate information, and the respondents match our demographics." *—S. G.*

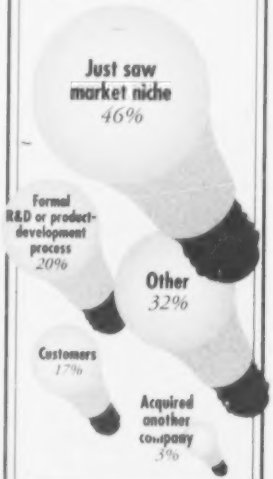
INNOVATION

How to Keep the Ideas Flowing

ALTHOUGH A MAJORITY OF *Inc.* 500 CEOs surveyed said the ideas for their products "just came to them" (see chart below), a company's future depends on how well it sustains a flow of ideas—on its ability to innovate. Not the CEO's ability to innovate, but the *company's*. "The founders' role," says Bob Johnston, a partner in IdeaScope, a consulting firm in Cambridge, Mass., "is to expand the ability and responsibility for innovation in the company beyond themselves."

How'd You Think of That?

Where did many CEOs of the fastest-growing companies get their ideas for new products and services? From — you guessed it — the It Just Came to Me Department. Formal research and development, it seems, rarely fueled diversification.



Source: An *Inc.* survey of 463 private companies reporting a five-year growth rate of 713% or higher since 1985.

Note: Total is higher than 100% because of multiple answers.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

Consider the system used by Ed Katz, president of Choice Courier, a New York City–based messenger service. Katz prowls the company's halls late in the day. "That's where I get my best ideas," he says. "It's 6 o'clock at night. People are leaning against the walls. So I say to one guy, 'Hey, what do you know about such and such?' Before you know it, it's 7 o'clock, and I have the germ of an idea for a new product."

Katz informally shops the idea around among the staff to get different perspectives and as a coarse filter to catch obvious flaws. But as soon as he brings the still-rough idea to a Monday-morning management meeting, a more formal process takes over. It's no longer just the boss's idea, once it's been handed over to a joint committee that includes the chief operating officer, a product manager, and others (from sales, finance, operations, and so on) who join as time goes on.

The point is that at Choice, ideas may get examined and then rejected or eventually developed, but there's a system in place for dealing with them. If your company isn't innovating, the first thing to do is figure out why not. Here are some points to think about:

• **Attitude and values.** If anyone in your company—especially the CEO—feels comfortable calling someone else's idea stupid in a meeting, your company may have an attitude problem. Make a rule: no one may criticize another's idea until it's been open to

(Continued on page 182)

How To Build Your Business From The Ground Up.

Launch your business with greater confidence and for greater rewards with this unique series of products. The series covers the most critical factors you'll face in your quest for small-business success: sales, marketing, customer service and business-plan preparation.

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BOOKS Inc. VIDEOS

SALES & MARKETING

(INNOVATION, from page 180)

discussion for, say, five minutes.

- **Formal recognition of the importance the company places on innovation.** Make it part of every employee's review process. Reward people for ideas just as you reward them for performance.
- **Cross-pollination.** Instead of buying just one subscription to the magazines your marketing people read, buy two and circulate the second through finance or manufacturing. Get the marketing people reading some of the engineers' technical publications. Each group will see the other's literature with different eyes—and perhaps they'll come up with different ideas.
- **A CEO who facilitates the idea flow, but who isn't the obvious decision maker.** At meetings where new ideas are discussed, the CEO should step out of his or her executive role by giving someone else the marker and just taking a seat at the table.

—T. R. and S. G.

RESOURCE

Selling by Voice Mail

The next time you make a telephone sales call, the odds are good you'll be talking to your target's voice mailbox. Don't get upset: use it. By definition, voice mail records your messages more accurately than a secretary or receptionist does, and it allows you to give the message some personality. The trick, says Madeline Bodin, author of *Using the Telephone More Effectively* (Barron's Educational Series, 1991), is to be prepared.

- **Have an agenda.** Jot down the points you want to make, so you're not tongue-tied after you hear the beep.
- **Include a commercial.** Don't try the prospect's patience, but 20 to 30 seconds spent describing the benefits of your product or service is not too much. Make sure the message you leave is geared to the individual whose phone mail you're using.
- **Call back in a week.** Leave your name and number and a good time to reach you, but also tell the person you'll phone back in a week, and then do so.

—T. R.

(HIRING, from page 185)
about crimes relating to theft. *Never* ask about arrests, because they're not an indication of wrongdoing.

•

"Are you in good health?" The classic application-form question is, indeed, a no-no. "One can ask only about physical or mental impairments if they would limit an applicant's ability to do the job," explains Cabot.

•

"Finding good child care is so hard. Do you have any baby-sitting problems?" This inquiry is OK if you consistently ask it of *both* male and female applicants—and you can prove it. Otherwise it smacks of sex discrimination.

•

"I see you've spent a lot of time in Paris. Were you born there?" You can't ask if someone is a citizen of another country. You can ask about U.S. citizenship or if an applicant has the legal right to work in this country. *—E. E. S.*

MOTIVATION

Spicing Up the Work

MANY COMPANY OWNERS can't make every job in their company interesting. Particularly if their product is inherently, well, *boring*. For example: How do you stimulate an employee who cuts 10-foot-long pieces of cable assembly all day?

That's what Randall Amon, CEO of ABL Electronics Corp., in Timonium, Md., wondered a few years ago. His solution: field trips. "By itself, our product just isn't very exciting. But if we can take employees out of the plant and show them how our products are used in a fetal monitoring device at a hospital, we can show them how their work fits into the world," says Amon.

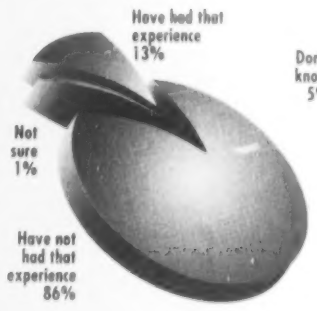
He tries to arrange such jaunts once every six months for all his 46 employees. The trips have been surprisingly effective. "People have more pride in their work when they understand how our products are used," says Amon. *—E. E. S.*

WORK FORCE

AIDS: I'll Think About It Tomorrow

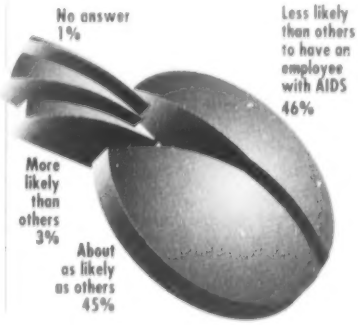
Few small companies have confronted any kind of long-term disability in their work force.

Have you ever had an employee with a serious, long-term medical condition that interfered with his or her ability to work?



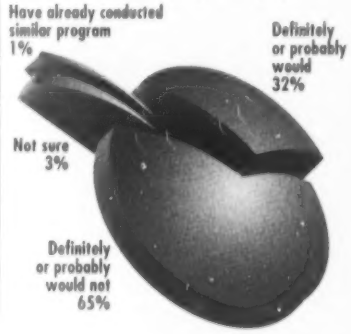
Nearly half feel they're less likely than other companies to ever have an employee with AIDS.

How vulnerable is your company to the HIV epidemic, compared with other similar companies?



And most would not schedule an AIDS-education session for their employees.

If cost were not an issue, would you schedule a one- to two-hour AIDS-education session, led by a Red Cross instructor, for your employees?


Have already conducted similar program 1%
Definitely or probably would 32%
Not sure 3%
Definitely or probably would not 65%

A RECENT RED CROSS SMALL-BUSINESS survey—emphasizing the views of companies with just nine or fewer employees—shows a breathtaking lack of preparation for the consequences of AIDS.

Though many companies feel surprisingly invulnerable to the epidemic and don't see the need to educate their employees about it, the facts suggest they should think again. The Centers for Disease Control estimates that 1 million Americans are infected—roughly one in every 250.

Charts Source: "HIV/AIDS Education in the Workplace: A National Survey of U.S. Small Businesses," American Red Cross, 1991.

RESOURCES

Your Company and AIDS

If you'd like to teach your employees more about AIDS, contact your local American Red Cross chapter. In partnership with The Centers for Disease Control, The Red Cross plans to roll out a nationwide HIV-education program for businesses in 1992. Call directory assistance to find your local chapter, or call 202-434-4074 for general information on Red Cross HIV- and AIDS-education programs.

If you don't think you're ready for a formal program but you would like to know how the disease may affect your business, The National Leadership Coalition on AIDS offers free pamphlets: "Questions Employers Ask and Answers You Need to Know" and the more comprehensive "Small Business and AIDS." To order them, call The National AIDS Clearinghouse at 800-458-5231. *—E. E. S.*

CHARTS: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

(LEASING, from page 189)
qualifies as a lease under federal-income-tax rules. In a true lease (which can be either a capital or an operating lease), the lessor owns the equipment and depreciates it while the lessee deducts lease payments as expenses. Unless you have a fixed-price purchase option at the end, this can be an expensive way to obtain equipment.

Finance lease. A noncancelable, long-term lease requiring no up-front investment from the lessee, who typically pays for insurance and maintenance. Could be set up as either a capital or an operating lease.

Full-payout lease. A type of finance lease that commits the lessor to several years of payments, no matter what. With a full-payout lease, you get no protection from obsolescence.

Leveraged lease. A deal in which the lessor puts up some of the purchase price from its own funds and finances the rest with third-party debt. As equipment owner, the lessor gets some tax benefits, which boosts its return; it may or may not pass those along to the lessee as lower lease rates.

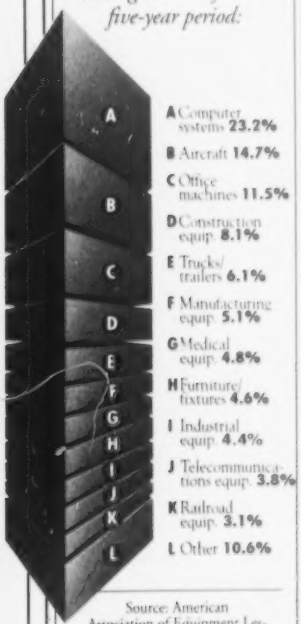
Master lease. The leasing equivalent of a credit line. A contract under which the lessee is able to add a set amount of new equipment without having to negotiate new terms and conditions each time. The agreement usually spells out the types of equipment covered and the period of time.

Net lease. Any lease in which the lessee assumes responsibility for operating expenses (insurance, maintenance, and taxes). Most varieties of leases, with the exception of short-term rentals, are written this way.

Open-end lease. A conditional sale whereby the lessee guarantees that the lessor will receive a minimum value at the end of the lease and agrees to make up any shortfall. Mostly used in connection with vehicle purchases. *—B. G. P.*

What Do Companies Lease?

During the past five years, leasing has grown mightily as a form of financing, and according to the U.S. Department of Commerce, leasing activity has exceeded overall business investment in equipment by a wide margin. Below is a breakdown showing what types of equipment companies are leasing. The percentages indicate new leasing business for the five-year period:



A Computer systems **23.2%**
B Aircraft **14.7%**
C Office machines **11.5%**
D Construction equip. **8.1%**
E Trucks/trailers **6.1%**
F Manufacturing equip. **5.1%**
G Medical equip. **4.8%**
H Furniture/fixtures **4.6%**
I Industrial equip. **4.4%**
J Telecommunications equip. **3.8%**
K Railroad equip. **3.1%**
L Other **10.6%**

Source: American Association of Equipment Lessors, *Survey of Industry Activity 1990.*

PLANNING

Finding Your Next Banker

DEPENDING ON HOW FAST your business is growing, you may reach a point when your local bank can't meet all your needs. Ideally, you'll see it coming way in advance. For example, RHS Fertilizing/Spraying Systems, of Hiawatha, Kans., which boosted its working capital line from $750,000 to $1.5 million, began preparing for that eventuality nearly two years ahead of time. Here's how CEO Rick Heiniger did it:

• **Research.** Heiniger pulled together names of about 20 banks within a 300-mile radius of his business, culling them from the yellow pages, a loan broker, and his current banker. Then, setting aside about an hour a day, he made exploratory phone calls.

• **Follow-up.** Four of the banks Heiniger called seemed interested, so each month he sent them information about the company, its performance, and its evolving needs. The mailings included projections and actual numbers.

• **Negotiations.** As the time to lock in with a new bank drew closer, two institutions were eager to pursue matters. The one Heiniger liked the best, however, was ready to advance only 75% against receivables, which made him nervous. "In a busy month," he worried, "I might not have enough assets to borrow what I needed." So he shifted his attention to the other bank. Eventually, he was able to nail down the money he needed, with terms and a rate he could live with.

—Susan Greco

CREDIT

Knowing the Score

CLEARLY, BANKERS ARE scrutinizing more carefully the loans they make. Systematic "loan grading" is becoming the norm at medium to large banks. Regulators are demanding it.

There's no universal scoring system that bankers use. But regardless, they will undoubtedly examine your business from several key angles, assigning points for such things as credit history, collateral, cash-flow coverage, the quality of your financial reports, and the strength of your management. The goal: to have a reliable and consistent method for determining (and tracking) the level of risk they *think* they're taking with a given business. Publicly traded banks also see grading systems as a step toward ensuring healthier returns on equity.

"The rating drives all sorts of things," says Keith LaRose, a vice-president in the small-business-lending area at Premier Bank, in Baton Rouge, La. "Everything from how much you'll be allowed to borrow, to the interest rate, to whether the bank will cover your overdrafts." The rating will change over time, based on performance of the company and the industry.

Given the potential impact, what's a prudent borrower to do? Ask your

(Continued on page 192)

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

BUSINESS FOR SALE
ARIZONA AM RADIO STATION

THE BUSINESS A stand-alone, 24-year-old, 5,000-watt AM radio station sited in the state's cotton capital (population 7,000), but broadcasting into greater metropolitan Phoenix and Tucson (50 and 60 miles away, respectively; combined population, 2.8 million). Currently offers national sports, news, and talk from 6 a.m. to 11 p.m. daily. On the market because of owner's death.

FINANCIAL SUMMARY

	1989	1990	1991*
[illegible]	[illegible]	$308,000	$338,000
[illegible]	[illegible]	$52,000	$84,000

*projected

PRICE [illegible]

OUTLOOK The halcyon days of AM radio have passed (FM currently gets three listeners to AM's one; 20 years ago it was the other way around), but businesses like this one can still represent an opportunity. After a decade in which buying radio stations was increasingly fashionable and increasingly expensive, the credit-tight, ad-poor '90s have cut the average price of an AM outlet almost in half—to $600,000. Translation: it's now a buyer's market. This station's 1991 projections outpace industry trends, and its profit margins are better than average, as well.

PRICE RATIONALE In addition to the revenue stream, you're buying a broadcast tower and a 3,000-square-foot building on eight acres of land. Most AMs fetch six times earnings (FMs are closer to eight), but analysts say that any multiple above five might make it tough for the new owner of this operation—a stand-alone in a mostly rural market—to service the debt.

PROS A chance to be creative in a business where revenue gains go almost straight to the bottom line; unlike in print media, a bigger audience doesn't mean bigger production costs—just bigger ad prices. Fairly flexible format would make spontaneous, unusual advertising deals possible.

CONS Ratings. Specifically, their complete absence. This station is so small it doesn't even register in surveys by national listenership-ratings associations. No ratings: no national sales rep. No rep: no national advertisers. Just how creative are you ready to be? *—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Tucson Business Investments, 602-750-1764.

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